



North Carolina
Department of Health and Human Services
Division of Medical Assistance
Financial Operations

1985 Umstead Drive – 2509 Mail Service Center - Raleigh, N.C. 27699-2509
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Michael F. Easley, Governor
Carmen Hooker Buell, Secretary

Gary H. Fuquay, Interim Director

August 4, 2003

MEMORANDUM

TO: ICF-MR Facility Administrator

FROM: Dave Mosley
Assistant Director – Financial Operations
Division of Medical Assistance

RE: Cost Reporting of General Liability Insurance and Medical Director Expenditures
on the 2003 and Future Cost Reports

The Division of Medical Assistance has carefully reconsidered the proper cost reporting of general liability insurance and the limitation placed on medical director expenditures for reporting on the ICF-MR Cost report.

Based on our review, it is determined that general liability insurance should be allocated to employee benefits based on payroll. Therefore, general liability insurance should be included in fringe benefits in the applicable cost centers on the cost report.

Your liability insurance coverage can be paid in three separate ways:

- (1) Premiums for General and Professional Liability coverage
- (2) Premiums for Umbrella coverage
- (3) Deductibles (paid out of pocket by the provider) relating to the policies in (1) and (2) above.

General liability insurance covers losses due to injuries sustained by people other than patients. For example, if a visitor sustains injuries from a fall in the facility and the visitor can prove the facility's negligence cause the fall (wet floor). Professional liability insurance provides protection from negligence by the facility's personnel such as RNs, LPNs, and CNAs. For example, a patient is injured from receiving a wrong medication from the facility's nurse.

Under no circumstances should the cost identified in [1] – [3] below include any insurance premiums paid to cover a loss on any real or personal property. In the event that a provider receives a refund or credit related to liability insurance, they should be credited against the cost of liability insurance in the year received.

- [1] **General and Professional Liability:** These premiums should be allocated to each cost center (direct and indirect) based on salaries and reclassified to the employee benefit line of each cost center of the cost report, (including any contract nursing or rehab therapy personnel).
- [2] **Umbrella Policy:** The Umbrella policy covers not only General and Professional liability but also automobiles; therefore, an allocation between these two cost centers must be completed first. Allocate the total premium between General/Professional liability and Auto liability based on the policy coverage amounts for each area.

Example:

| | | |
|--|--------------------|---------------|
| <i>Total Umbrella Premium – \$50,000</i> | | |
| <i>Total Professional Liability Coverage –</i> | <i>\$4,000,000</i> | <i>(80%)</i> |
| <i>Total Auto Liability Coverage –</i> | <i>\$1,000,000</i> | <i>(20%)</i> |
| <i>Total Coverage –</i> | <i>\$5,000,000</i> | <i>(100%)</i> |

The premium of \$50,000 is allocated 80% (\$40,000) to General/Professional Liability (see [1] above) and 20% (\$10,000) to the indirect cost center titled “Insurance/Fixed Assets.” (See overall example below.)

[3] **Deductibles:**

Deductibles are incurred when a policy requires the provider to pay up to a predetermined amount before the insurance company is obligated to pay on the claim.

For example, if the total Professional Liability claim is \$50,000 and the provider has a \$10,000 deductible, then the \$10,000 can be included as a General/Professional Liability expense as explained at (1) above. This cost is only allowable if it is paid during the cost-reporting year. Accrual of these costs is not an allowable cost.

OVERALL EXAMPLE:

| | | |
|--------|--|-----------|
| Facts: | • General & Professional Liability Premium – | \$100,000 |
| | • Umbrella Premium – | \$ 50,000 |
| | % Umbrella to General/Professional Liability – | 80% |
| | % Umbrella to Autos – | 20% |
| | • Professional Liability Deductible Paid During Year – | \$ 10,000 |

| <u>Allocation of Premiums</u> | | |
|--------------------------------------|----------------------|-------------------------------|
| | <u>G/P Liability</u> | <u>Insurance/Fixed Assets</u> |
| General & Professional Liability | \$100,000 | – 0 – |
| Umbrella | 40,000 | \$10,000 |
| Deductibles | 10,000 | |
| Total | <u>\$150,000</u> | <u>\$10,000</u> |

❶ \$150,000 will be allocated to each cost center (direct and indirect) based on salaries and reclassified to the “Employee Benefit” line of each cost center of the cost report.

❷ \$10,000 will remain in the “Insurance/Fixed Asset” line of the cost report under the “Property and Ownership and Use” cost center.

Regarding the limitation placed on the medical director expenditures allowed to be claimed on the ICF-MR cost report. Our further analysis indicates that the current method is not appropriately set; thus, we have found in looking at historical data that the appropriate amount of medical director expenditures which should be allowed to be claimed should be based on a per bed figure.

With regards to our evaluation of the allowance of expenditures for the Medical Director, we believe it is more appropriate that this allowance be on a per bed basis. Thus, for the 2003 Cost Report, \$250 per bed will be allowed for Medical Director expenditures.

Should you have any questions, please call Pat Jeter at (919) 857-4150.

AG:JP:cb

cc: Tom Galligan
Peyton Maynard